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Foreigners' Political Roles In U.S. Grow by Investing

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Special to The New York Times

WASHINGTON, Dec. 29 — Japanese business executives warned that they would curtail their investments in the United States if Congress ended the favorable tax treatment they have received.

Saudi Arabians threatened to sell their United States securities rather than disclose how much they own.

The political action committee of a Dutch-owned company contributed $726,000 to a campaign to defeat a proposed tax in California.

As foreign investment has surged in the United States, such political activity by foreign corporations has escalated at all levels of government. Foreign business executives and their American lobbyists have become familiar figures in the corridors of Congress, state houses and city halls.

Buying Into America

Second of three articles on foreign investment in the United States.

In Defense of Diversity

Their efforts transcend issues of tax and trade. Executives of a Japanese-owned pulp mill in Sitka, Alaska, played a leading role in last year's defeat of the Clean Water Act. The Korean-based Unification Church opened a newspaper here, The Washington Times, with the stated intent of changing the political climate of the capital.

Reagan Administration officials, governors, mayors and other supporters of this trend contend that this nation's greatest strengths, both political and economic, are its openness and diversity. Freedom of expression and opportunity, they say, are the bedrock upon which America was built. They oppose xenophobia, hail a global economy, and say that competition will insure the best results at both the ballot box and marketplace.

Reversing the Investment Flow

But critics on Capitol Hill and elsewhere say that the surge of foreign investment and ensuing political involvement could erode the nation's independence, both political and economic.

A growing dependence on foreign investments, they say, will inevitably lead to a loss of political as well as economic freedom, as decisions affecting Americans are increasingly made in foreign capitals.

For two centuries, United States citizens went around the world investing in foreign nations and influencing their governments. During the past decade, however, the flow of investment money has reversed. Foreign investors have found a haven for their money in the United States, and, mainly to protect those investments, have become increasingly involved in the political process.

Like American investors abroad, foreign investors in the United States derive much of their political influence from their economic power. Foreign investments are approaching $1 trillion and have created an estimated 2.5 million American jobs.

"You get an immediate reaction when you introduce a piece of legislation that affects these foreign investors in the United States," said Senator Lloyd Bentsen, Democrat of Texas. "They don't just stop at the Washington level. You hear from their distributors and contractors back home right away."

Investor Influence And Power Politics

The Japanese have been the most aggressive, particularly in Florida and California, which adopted a corporate income tax system that adds millions of dollars to the tax bills of many multinational corporations.

Those states were the two largest that taxed corporations on the basis of their earnings worldwide instead of profits earned just in that state. For example, under this unitary tax, if 10 percent of a company's sales, payroll and property are in California, then 10 percent of its profits all over the world are subject to the state's corporate tax.

Executives of the Sony Corporation of America, a subsidiary of the Japanese company, threatened to cancel plans to build factories in Florida and California unless those states repealed the unitary tax. Florida complied, in a hastily called legislative session last December. California demurred.

In an effort to repeal the tax, Sony of America donated $29,000 to the election campaigns of California legislators last year. A coalition made up mostly of Japanese foreign investors added $108,000.

Although no complaints have been filed, a necessary step for an investigation to begin, the chairman of the Federal Election Commision, John Warren McGarry, said in an interview that the Sony donations apparently violated Federal laws prohibiting foreign nationals from making campaign contributions. Chris Wada, Sony of America's vice president and assistant to the chairman, who directed the company's campaign, declined to be interviewed.

Such donations are not uncommon. The political action committees of American companies entirely owned by foreigners contributed more than $1 million to Congressional campaigns in 1984, twice the 1982 amount. The Federal Election Commission, while allowing these PAC's to continue, has asked Congress to clarify their legality.

In many cases, the political activity of foreign investors precedes their arrival here. It begins when governors and mayors circle the globe trying to persuade companies to locate in their states and cities. The officials, who hope to help local economies and generate jobs, offer a mix of grants, loans and tax abatements.

Federal officials, too, encourage foreign investors to lend money to the United States Government by buying American securities. Foreigners now own more than 10 percent of these securities, which are part of the nation's $2 trillion debt. Federal officials have promised foreign investors anonymity and special tax advantages, and the investors have threatened to withdrawal their money unless these privileges are retained.

Similar threats have been used by foreign investors lobbying against the repeal of tax provisions that encourage investments in heavy industry. The repeal is being considered as part of the tax overhaul bill pending in Congress.

Jiro Murase, a New York lawyer, said some of the 200 Japanese companies he represents in the United States have lobbied strongly for the investment tax credit. "Some of them," he said, "have gone to talk to senators and Congressmen, and said, 'We're not saying that we're not going to invest if the provision is changed, but it's going to make it very hard for us to invest as much as we would like.'"

The House Ways and Means Committee agreed to repeal the investment credit and the full House passed the tax overhaul bill without it. The overhaul measure is pending before the Senate.

Who Owns What: Control Is Hidden

Many members of Congress say they are unaware of the foreign connections of some domestic PAC's. Had they known, some members say, they would not have accepted the campaign contributions.

Representative Thomas J. Downey, Democrat of Suffolk County, would not have accepted campaign contributions totaling $500 from the Revere Sugar Company PAC, his campaign manager

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said, if he had known that the company was wholly owned by a Philippine business associate of Imelda Marcos, whose husband is President Ferdinand E. Marcos of the Philippines.

Revere Sugar, which is based in New York, is owned by Antonio O. Floriendo, who is also a confidante of President Marcos. The company's PAC donated a total of $2,350 to candidates in the 1984 congressional races, all to Democrats.

"We had no idea that they were in any way connected with Marcos," said Isabel Solomon, Mr. Downey's campaign manager. "Had we known, we never would have taken that money. The election laws should be changed to indicate when a PAC represents a foreign-owned company."

Mr. McGarry, the chairman of the Federal Election Commission, said in response: "I think it's a good idea. The entire thrust of the election reform law is full disclosure."

"Nobody knows the extent of either foreign ownership of American companies or their participation in politics," he added. Mr. McGarry said he was not certain whether such an innovation required legislation or could be done by the commission itself.

In 1982, the Unification Church founded a daily newspaper here with the express intention of providing a conservative voice in the nation's capital. Thus far, the investors have poured $100 million into The Washington Times, according to Arnaud de Borchgrave, the editor in chief.

"It really is amazing that it took a bunch of Koreans to understand that a two-party democracy cannot function effectively with a one-party press in the nation's capital," Mr. de Borchgrave said.

But some critics say the newspaper goes too far. "They're injecting ideology into news columns, particularly in the play they give stories and headlines," said Jack Nelson, Washington bureau chief of The Los Angeles Times. He mentioned a fund established by the newspaper to help the guerrillas fighting the Nicaraguan Government. The program "distorts what journalism is about," Mr. Nelson said.

The surge of foreign investments in the United States has touched off a political debate that focuses not merely on the overall merits of such investments, but also on a host of peripheral issues that include the following:

¶An acknowledged data gap concerning the extent of foreign investments and the identity of both investors and their countries,

¶Lack of reciprocity on the part of some who invest here but ban similar investments in their own countries,

¶Charges that United States taxpayers are providing grants and tax advantages that help foreign competitors gain an edge over domestic companies,

¶Charges that investors from the third world are sending our economic aid back to us, rather than investing in their own countries,

¶The anti-union practices of many foreign investors,

¶Charges that some foreign investors have purchased American companies to acquire their technology, to the detriment of American competitors.

'Colonialism' Worries Critics

The Reagan Administration strongly supports investments by foreigners.

"Investment in the United States does provide jobs, financing and helps keep interest rates down," said Malcolm Baldrige, the Secretary of Commerce. "I think socially as well as financially, there's much more gain by having an open investment policy throughout the world than the converse, which are barriers that impede capital flows."

But major concerns have been expressed by some members of Congress, as well as some western governors whose constituents have bridled under absentee ownership of their states' resources. Gov. Richard D. Lamm of Colorado raises the specter of what he calls "economic colonialism." As a westerner, he said, he was sensitized to the perils of absentee ownership. "What I'm looking at," he said, "is a history of past colonialism in the west, which made us dance to a tune played afar."

The question of foreign investment was on the agenda of a recent House Democratic Task Force on Trade. "The real thinkers around here are concerned about the long-term cost of the capital inflows," said Representative Don Bonker of Washington, chairman of the task force. Foreign purchases of United States securities help finance the national debt, but must be repaid with interest, he noted. "It's subsidizing the present for the hardships of the future."

Not all the critics are Democrats. Senator Frank H. Murkowski, Republican of Alaska, referring to foreign investment, said, "Once they own your assets, they own you. They employ you."

The political muscle enjoyed by foreign investors is suggested by the refusal of Treasury officials to disclose the amount of United States securities held by Saudi Arabia.

The Treasury officials refused to divulge the amount when subpoenaed by a Congressional committee in 1979 and still refuse to make that information public. They say the Saudis would sell their United States securities, rather than acquiesce. The Congressional panel feared that the Saudi investment could constitute a "money weapon" that would give the Saudis undue influence over United States foreign policy.

"It's not healthy not to know how much foreign investment there is, or where it comes from," said Representative Nancy Johnson, Republican of Connecticut, who has played a leading role on the Republican trade task force.

William E. Simon, who, as Treasury Secretary in the Ford Administration, promised confidentiality to the Saudis, defended the move.

"Confidentiality is terribly important when it comes to investment, no matter who the individual is," he said. The Saudis had agreed to purchase a "substantial" but undisclosed portion of subsequent issues of United States securities, Mr. Simon said, adding, "There is absolutely no good reason why it should be divulged."

Anthony Solomon, then Assistant Secretary of the Treasury for Monetary Affairs said the Saudi threat was a real one.

"The dollar at that time was sinking very badly," Mr. Solomon recalled. "Anybody switching from dollars to other currencies would have driven the dollar down further. The Saudis had the largest single holding of dollars. U.S. Government securities were a large part of their holdings."

Another dispute focuses on campaign contributions made by the PAC's of domestic companies that are wholly owned by foreign corporations.

The Federal Election Campaign Act of 1974 specifically prohibits foreign nationals from contributing to political campaigns at any level.

"I do not think foreign nationals have any business in our political campaigns," Senator Bentsen, sponsor of the measure prohibiting the donations, said during the Senate debate. "They cannot vote in our elections, so why should we allow them to finance our elections? Their loyalties lie elsewhere; they lie with their own countries and their own governments."

The law states: "A foreign national shall not directly or through any other person make a contribution, or expressly or impliedly promise to make a contribution, in connection with a convention, caucus, primary, general, special or runoff election in connection with any local, state or Federal public office."

The Federal Election Commission, in a series of divided opinions, has interpreted the law as allowing foreign-owned domestic companies to have political action committees that contribute to state and Federal candidates, as do other domestic companies, but has asked Congress for a clarification on this issue.

Commissioner Thomas E. Harris was the lead dissenter in each of these cases. "The PAC is always controlled by the top management of the corporation," he said. "By permitting foreign nationals to incorporate in the United States and thereby avoid the prohibitions" of the campaign law, "the Commission does a great disservice to the Congressional intention to keep foreign influence out of Federal elections in the United States."

Senator Bentsen agrees. "If you have a PAC from a subsidiary of a foreign company, it certainly seems to me that you open the door to foreign influence in our elections," he said. "The foreign company will obviously dictate to the subsidiary on how its PAC will be used."

The PAC's insist that they are independent. For example, George Meany, treasurer of the Shell Oil Company Employees Political Awareness Committee, said that there has never been any corporate involvement from the company's Dutch owners. "The PAC is made up of a thousand employess, and they're all American citizens," Mr. Meany said.

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The contributions of these PAC'S has generally followed the pattern of domestic PAC's. Most of the money went to incumbents, and to Republicans.

Major PAC contributors to the 1984 congressional campaigns included Sandoz, a Swiss-owned company ($251,000); Shell Oil ($186,000), and Seagram, a Canadian-owned company ($162,000).

Critics are also concerned about PAC contributions to local political organizations and candidates. The PAC of the Shell Oil Company, a wholly owned subsidiary of Royal Dutch Shell, a Netherlands corporation, gave $726,000 in contributions and loans to an organization that sought to block a proposed oil tax in a referendum before California voters. The referendum calling for the tax was easily defeated.

In addition to the $29,000 contributed by the Sony Corporation of America to several California state legislators, the California Unitary Coalition, a group financed by Japanese manufacturers, contributed $108,000 to the re-election campaigns of 53 legislators, including $22,000 to David Roberti, the Democratic president pro tem of the State Senate.

The strategy did not get the results intended. Instead of repealing the unitary tax, as the coalition had hoped, the legislators deferred action. The unitary tax bill became known as a "juice bill," to be squeezed for campaign contributions.

"The feeling is, 'let's keep this issue as alive as long as we can, so that we can get as much campaign money as we can,'" said Bob Stern, general counsel to the California Commission on Campaign Financing.

At the same time that Sony was lobbying the California legislators, Prime Minister Margaret Thatcher of Britain was lobbying Mr. Reagan and Congressional leaders, threatening reprisals against American businesses unless the state unitary tax was repealed. Soon after, Mr. Reagan announced support of Federal legislation to repeal the tax, a move that would cost California more than $300 million a year.

Why 2 Senators Fought Water Bill

Most members of Congress say that they treat domestic and foreign-owned companies the same way, in that they seek to obtain advantages for all companies in their own states.

Thus, Alaska's two Senators killed renewal of the Clean Water bill last year, acting on behalf of two pulp mills, one Japanese-owned and one American-owned.

Senator John H. Chafee, Republican of Rhode Island, who managed the bill on the Senate floor, recalled that "the Alaskan senators put a hold on the bill, and it didn't pass."

"If it had been my state I would have fought just as hard," Mr. Chafee said. "You're fighting for the jobs and the investment."

The Senate rebelled, however, when in October Alaska's Senators sought to obtain $7 million for a demonstration anti-pollution project for the Japanese-owned Alaska Lumber and Pulp company, in Sitka.

Cities and states compete in offering foreign investors grants, tax advantages and other benefits as inducements, and some critics of foreign investment have assailed the practice.

"We allow the states to bid against each other," said Rudy Oswald, chief economist of the A.F.L.-C.I.O. "It becomes almost blackmail."

The competition is intense. To lure the Nissan motor company to Smyrna, Tenn., the state provided $350 million in low-interest industrial development bonds, and $7.3 million for job training. To lure the Kanto Seiki company, which manufactures automotive instrument panels, Lewisburg, Tenn., helped the company obtain an $820,000 Urban Development Action Grant, provided bilingual education in the schools and allowed the company to pay reduced taxes for ten years. Officials from the Japanese companies worked closely with officials in Smyrna and Lewisburg to arrange for the special inducements.

Labor officials have expressed concern over the anti-union policies of many foreign investors, and fear that those policies could create an antiunion climate nationally.

"A very large number come in and are very antagonistic to the rights of workers to join unions and bargain collectively," Mr. Oswald said. "In many cases, this is opposite to what the corporations do in their home countries."

He cited Kawasaki of Japan, BASF-Wyandotte of West Germany and Norsk-Hydra of Norway. "In each of these cases, corporations deal with unions in their own countries, which they refuse to do in this country," he said.

"Some foreign companies operate much worse than the worst U.S. companies," Mr. Oswald continued. "You'd be hard-pressed to find someone worse than Kawasaki."

The company has been cited by the National Labor Relations Board for dismissing employees for trying to organize the plant. Although the company defended its actions, the board found for the union. But Stan Hanson, the plant manager in Lincoln Neb., defends Kawasaki against allegations from the union. "They've had two elections here already, and they've lost both," he said. "The employees have spoken."

Mr. Murase, the New York lawyer who represents 200 Japanese companies in the United States, said that when governors and mayors wooed Japanese investors, they usually promised labor peace: "They say, 'You won't have any problem with labor in our state. There'll be no interference for you to manage.'"

Despite union objections few American officials blame foreign investors when such problems occur. Both supporters and critics of foreign investment note that America's public officials have made a concerted effort to encourage this investment and have been willing to accept the problems along with the benefits.

Next: Foreign investors change the way Americans live.

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